

How Is Your Investment Manager Winning?

October 2024

Executive Summary

- **Little wins compound over time.** A small but consistent winning percentage on each small action, such as a single point in tennis or buying/selling a single stock in a portfolio, ultimately accumulates into a winning record.
- **How is your investment manager winning?** There are many ways to win, but understanding how an investment manager is winning can provide insight into their approach, the repeatability of their track record, and can add perspective on how they should be judged on shorter time frames.
- An assessment of Cornerstone's Concentrated 30 Large Cap Value strategy shows that an **impressive long-term track record¹ is comprised of more modest-sounding little wins such as a quarterly stock level win rate of 52.3% (10 years ending 6/30/24) and stocks contributing approximately 16% more than detractors subtract.**

¹ Top decline eVestment net of fee returns vs. peers for since inception as of 06/30/24. The inception date for the Concentrated 30 Large Cap Value is 09/30/2001. eVestment provides institutional investment data, analytics and market intelligence covering public and private markets. Cornerstone has an agreement with eVestment to provide data on eVestment's Global Database. Cornerstone does not pay a fee to be included in eVestment's rankings.

Winning Is Hard

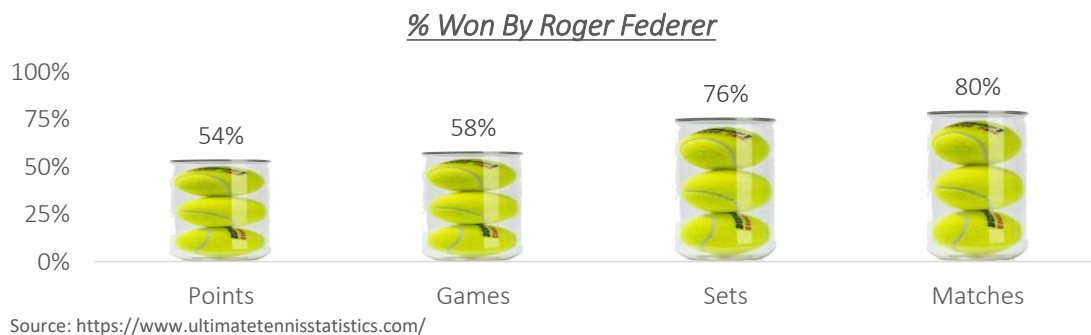
A recent quote from tennis legend Roger Federer resonated with our investment team. Federer stated in his June 9th commencement address at Dartmouth:

In tennis, perfection is impossible... In the 1,526 singles matches I played in my career, I won almost 80% of those matches. Now, I have a question for all of you... what percentage of the points do you think I won in those matches? Only 54%.

A few takeaways immediately jump out from this quote. The first is that winning (especially on a short-term measure of success) is hard; this is particularly true in a highly competitive arena like investing, where we acknowledge that many if not most investment managers lag the market after fees. Even one of the best tennis players in history only won 54% of his points. Second, a certain disposition is required when met with a steady dose of disappointment, after all, Federer lost 46% of his points. How you respond to that disappointment matters. When you lose a point nearly as often as you win, you need to constantly and consistently refocus on the next point. In this way, investing is similar to tennis. The markets are always ready to serve up a steady dose of humility, but a team's ability to learn, move forward, and continue to execute through all markets is critical. The secret to a good track record in investing is the same as in tennis, **a small winning edge can compound into an outstanding record over a long enough time frame.**

Winning Compounds Over Time

Consistent little wins add up. For Federer, winning 54% of his points translated into winning 58% of his games, 76% of his sets, and most importantly, 80% of his matches.



A similar phenomenon is evident in investing as well. The likelihood of outperformance for a given stock on a given day is not materially higher (or predictable) than that of a single coin flip. But most firms own many stocks and over many days. Over longer time periods, a small edge at either the stock level or portfolio level should compound into much higher (and more impressive sounding) levels of winning.

Unlike Tennis, In Investing How Much You Win By (or Lose By) Matters A Lot

An important distinction between tennis and investing is that tennis outcomes are binary. You either win or lose the point - there is no magnitude associated with it. It doesn't matter if your opponent missed the line by a hair or whiffed, you still just win the point. In investing, on the other hand, magnitude is critically important. At the stock level you might have an outperformer and an underperformer, but if the outperformer is ahead by 20% and the underperformer lags by 10% you come out way ahead. Obviously, this applies at the portfolio level as well, where winning in bigger size than losing sets you up for significant success over time.

How Is Your Investment Manager Winning?

One realization of our team in assessing our own strategies is that there are a lot of different ways to win, and a lot of different ways to measure winning. While all of our strategies are driven by the same investment philosophy and managed by the same investment team, different Cornerstone strategies have delivered different paths to success versus their benchmarks and peer sets (which we will likely explore in subsequent papers). We believe that understanding how an investment manager is winning can be enlightening and can also provide a helpful frame of reference when assessing their results in both good times and bad. In this paper, we'll focus on our oldest flagship strategy, Cornerstone's Concentrated 30 Large Cap Value strategy, also known as C30.

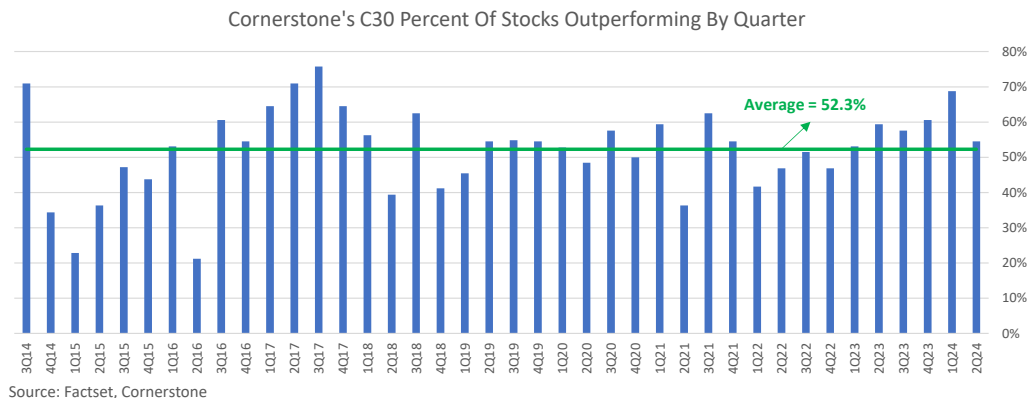
How Cornerstone's C30 Strategy Is Winning

The C30 is a bottom-up, fundamental research-driven large cap value strategy competing against the Russell 1000 Value Index as the primary benchmark and being incepted on 9/30/01. The strategy's institutional composite has outperformed the Russell 1000 Value Index since inception and over the last 10 years, with a 5th percentile eVestment performance ranking² since inception and 8th percentile over the last 10 years compared to its US Large Cap Value Equity peer universe (as of 6/30/24).

There are many possible ways to assess a strategy's success or failure. In this paper, we build from the ground up, starting with short-term stock outcomes and how that drives long-term relative portfolio performance. To do so we analyzed:

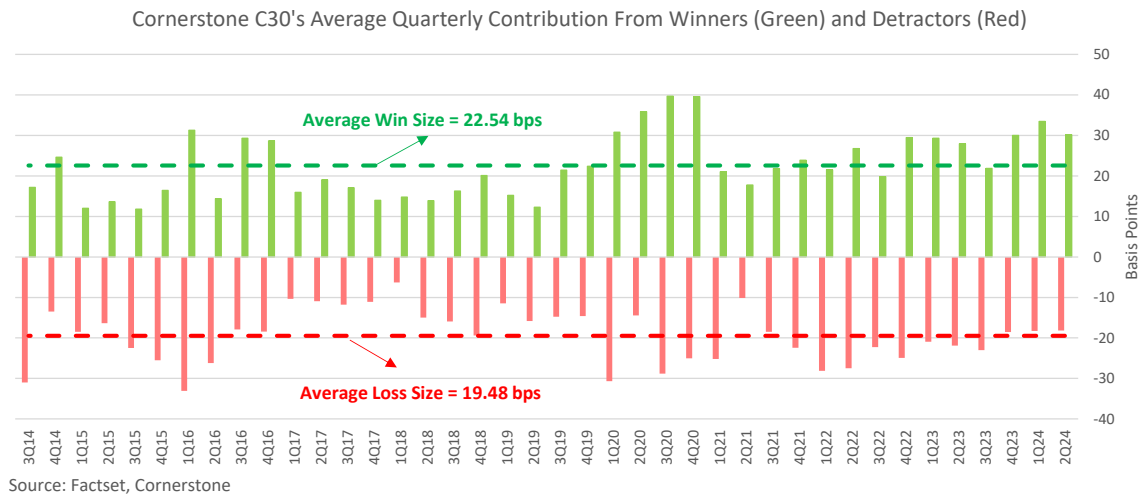
- Percentage of portfolio stocks outperforming quarterly (10 years)
- Size of average quarterly stock level contributor vs. detractor (10 years)
- Percentage of quarters outperforming (10 years)
- Average size of quarterly portfolio outperformance or underperformance (10 years)

For C30 the average percentage of portfolio stocks outperforming on a quarterly basis for the last 10 years was 52.3%. Much like in the preceding tennis anecdote, this doesn't sound particularly impressive in isolation, but when repeated over time, this has resulted in top decile relative returns vs. the peer group. When thinking about what this means in practice for our team, with a 30-stock portfolio you will have on average roughly 16 stocks help and 14 hurt each quarter. Talk about a steady diet of humility!

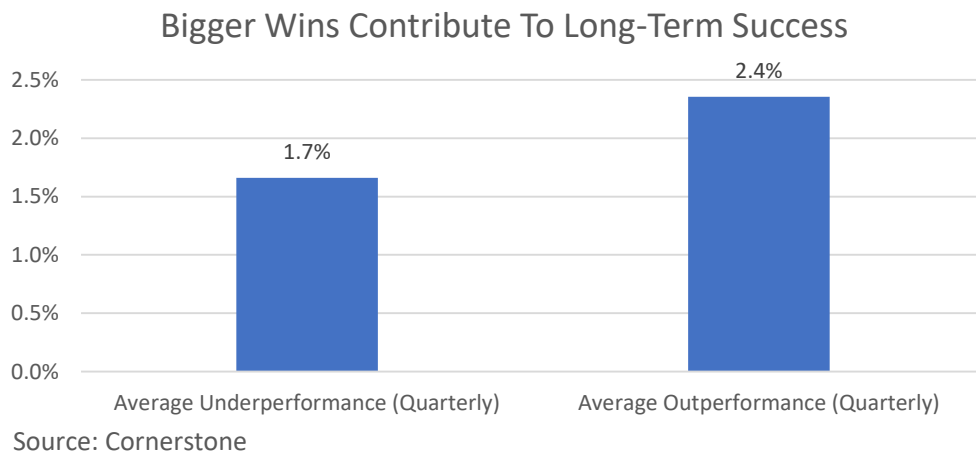


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As mentioned above, not all contributors or detractors are the same, as magnitude matters a great deal. Ideally, you want to win big and lose small, which can help transform more modest stock level win rates into higher portfolio level win rates. For C30, the average positive contributing stock on a quarterly basis added approximately 22.5 basis points and the average detracting stock hurt by approximately 19.5 basis points. While the difference between these two components can sound modest, in conjunction with a win rate of 52.3%, the long-term results have become compelling.



Shifting to portfolio level analysis (which effectively builds upon the stock level win rate and relative magnitudes), C30 has a quarterly win rate (also sometimes referred to as “batting average”) of 62.5% over the last 10 years. This compares to the eVestment US Large Cap Value Equity universe of investment managers³ which has a batting average of 57.3%, a measure that likely includes significant survivorship bias. However, once again, we see positive asymmetry in winning quarters vs. losing quarters. As shown below, the average C30 quarterly relative outperformance is 2.35%, while the average quarterly relative underperformance is 1.66%. This 1.4x size advantage for the winning periods, in conjunction with winning 62.5% of quarters, is what has driven long-term success for our C30 strategy.



³ Peer ranking data compared to the eVestment U.S. Large Cap Value Equity Universe can be subject to change based on universe submitted data. Strategy count (# of observations) reflects number of products providing relevant time series data.

How You Respond Matters

Cornerstone believes that the behavioral aspect of investing is remarkably important. The underlying premise of our investment philosophy is that stock prices and fundamental-driven valuations diverge at times due to the behaviors of others, and understanding and mitigating our own behavioral biases is core to our “Cornerstone Advantage.” Flipping a coin will, over time, deliver results of ½ heads and ½ tails, but that doesn’t mean heads cannot come up even ten times in a row (or more!). As investors and portfolio managers how we respond to the 52% wins or 48% losses is incredibly important and as Federer said “You move on. Be relentless. Adapt and grow.” Unlike tennis, investing is not binary, so it is imperative to ensure that our bad decisions today do not negatively impact our decisions tomorrow and our good decisions do not give us unreliable confidence. The discipline to consistently move on from both losers and winners and learn from them is imperative to long-term performance

A Lesson In Humility & Persistence

The road to success is paved with significant challenges along the way and an investment team and organization must be equipped with the mentality, structure, and discipline to overcome these challenges. Understanding that even Roger Federer won barely half of his points, or that on a quarterly basis, the C30 strategy has only been “right” on 52.3% of our stocks is a great reminder that one must stay humble and always search for the next opportunity; because every incremental layer of success builds over time into something much larger.

We invite you to reach out to us to learn more about our investment process. Please contact Paul Slakter, Partner and Head of Business Development, at Slakter@cornerstone-ip.com or 813-240-6191. We believe we have built a unique approach to equity investing with strong near and long-term performance that speaks for itself, and our investment team values every opportunity to share our story.

The opinions expressed represent the personal views of Cornerstone Investment Partners investment professionals and are based on their broad investment knowledge, experience, research and analysis. Past performance does not indicate future results. As with all investments, the possibility for profit is accompanied by the risk of loss.

CORNERSTONE

investment results

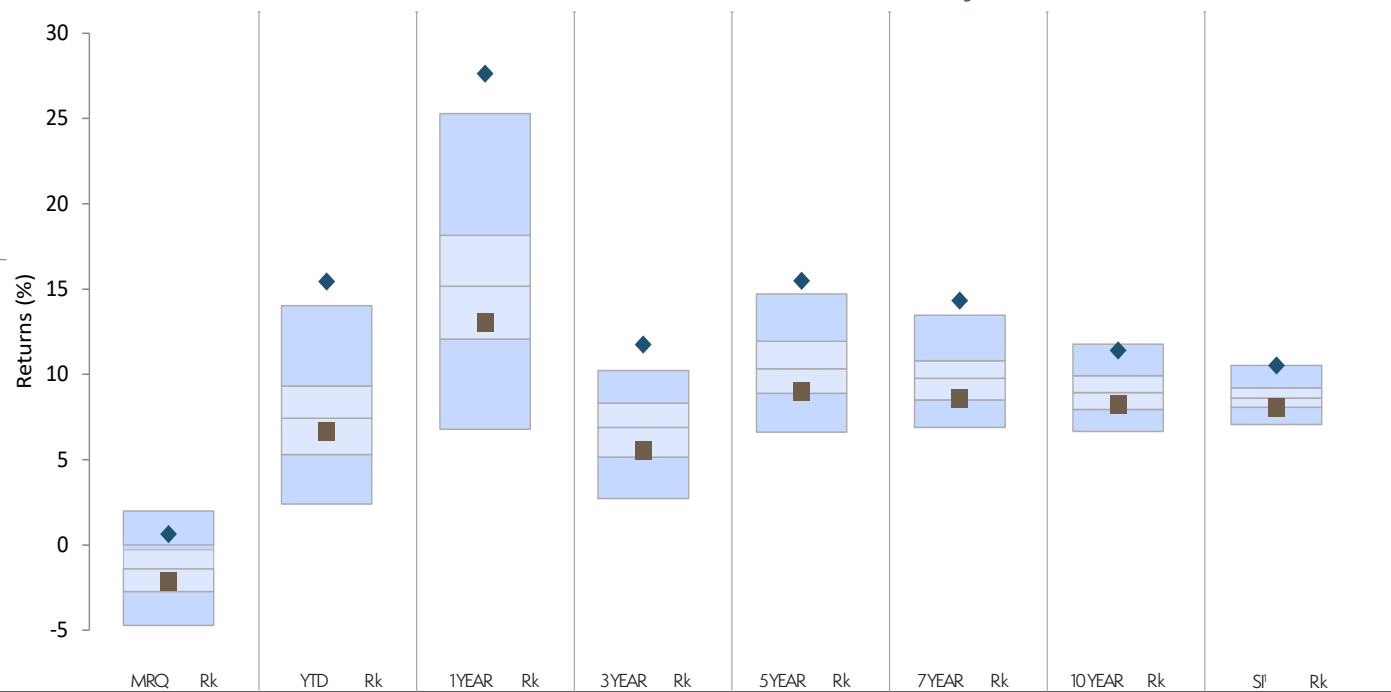
Concentrated 30

June 30, 2024

Performance Measurement: C30 vs Russell 1000 Value

Since Inception 22.75 Years, 9/2001-6/2024

Universe:
eVestment US Large Cap Value Equity



	MRQ	Rk	YTD	Rk	1YEAR	Rk	3YEAR	Rk	5YEAR	Rk	7YEAR	Rk	10YEAR	Rk	SI	Rk
5 TH PERCENTILE	1.99		14.02		25.28		10.23		14.71		13.46		11.77		10.53	
25 TH PERCENTILE	-0.29		9.31		18.15		8.31		11.95		10.81		9.92		9.21	
MEDIAN	-1.40		7.43		15.17		6.88		10.32		9.77		8.94		8.61	
75 TH PERCENTILE	-2.74		5.30		12.07		5.15		8.90		8.51		7.94		8.08	
95 TH PERCENTILE	-4.72		2.40		6.77		2.72		6.61		6.89		6.65		7.05	
# OF OBSERVATIONS	366		366		366		351		333		322		293		134	
◆ CONCENTRATED 30- NET OF FEES	0.64	13	15.43	2	27.62	2	11.74	2	15.49	3	14.33	2	11.39	8	10.53	5
■ RUSSELL 1000 VALUE	-2.17	66	6.62	58	13.06	67	5.52	71	9.01	73	8.61	73	8.23	68	8.08	75

RESULTS DISPLAYED IN US DOLLAR (USD)

19/2001-6/2024

The graph is included as supplemental information and complements a full performance disclosure presentation, which can be located on the Concentrated 30 Annual Disclosure Presentation. eVestment provides institutional investment data, analytics and market intelligence covering public and private markets. Cornerstone has an agreement with eVestment to provide Cornerstone's data on eVestment's Global Database. Cornerstone does not pay a fee to be included in eVestment's ranking.

Source: Cornerstone Investment Partners, eVestment

CORNERSTONE E Concentrated 30 Institutional Composite

	CORNERSTONE GROSS RETURNS	CORNERSTONE NET RETURNS	RUSSELL 1000 VALUE	GROSS COMPOSITE 3 YR ST DEV	R1000V 3 YR ST DEV	COMPOSITE ASSETS \$ MILLIONS	ACCOUNTS AT PERIOD END	PERCENT OF FIRM ASSETS	FIRM ASSETS \$ MILLIONS	GROSS COMPOSITE DISPERSION
2023	22.90%	22.60%	11.46%	16%	17%	1,222.8	20	64.5%	1,896.2	0.1
2022	-10.50%	-10.73%	-7.54%	22%	21%	1,121.7	21	65.8%	1,703.9	0.1
2021	29.99%	29.56%	25.16%	20%	19%	1,265.1	21	65.5%	1,932.1	0.1
2020	11.93%	11.52%	2.80%	20%	20%	1,042.8	22	56.9%	1,831.3	0.5
2019	30.73%	30.30%	26.54%	12%	12%	1,519.0	28	66.0%	2,300.8	0.2
2018	-6.08%	-6.41%	-8.27%	12%	11%	1,631.3	32	75.2%	2,169.9	0.3
2017	26.80%	26.36%	13.66%	12%	10%	1,910.0	40	77.6%	2,458.6	0.1
2016	16.82%	16.44%	17.34%	13%	11%	2,154.2	42	82.5%	2,609.7	0.4
2015	-13.54%	-13.87%	-3.83%	12%	11%	2,741.3	60	78.8%	3,480.2	0.3
2014	8.41%	8.08%	13.45%	10%	9%	7,857.3	101	85.8%	9,154.3	0.2
2013	35.18%	34.76%	32.53%	12%	13%	6,664.9	91	81.2%	8,210.6	0.5
2012	15.32%	14.97%	17.51%	15%	16%	3,996.3	78	69.8%	5,725.4	0.2
2011	3.89%	3.50%	0.39%	19%	21%	1,969.3	65	56.8%	3,466.7	0.2
2010	13.08%	12.61%	15.51%	21%	23%	989.1	62	41.3%	2,394.8	0.4
2009	24.90%	24.37%	19.69%	20%	21%	485.1	52	33.7%	1,437.6	0.8
2008	-28.08%	-28.45%	-36.84%	14%	15%	105.0	25	17.1%	613.0	0.4
2007	12.53%	11.99%	-0.17%	8%	8%	71.7	14	12.6%	569.1	0.2
2006	17.71%	17.24%	22.25%	7%	7%	206.8	39	54.1%	382.5	1.0
2005	8.65%	8.24%	7.05%	10%	9%	111.8	22	45.3%	246.9	0.5
2004	12.99%	12.31%	16.49%	18%	15%	45.6	15	36.9%	123.6	0.5
2003	31.62%	30.98%	30.03%	N.R.	N.R.	5.8	5 or fewer	11.4%	50.7	N.A.*
2002	-16.80%	-17.33%	-15.52%	N.R.	N.R.	2.4	5 or fewer	10.6%	22.1	N.A.*
2001*	14.97%	14.97%	7.37%	N.R.	N.R.	2.0	5 or fewer	13.0%	15.4	N.A.*

* Composite inception date is 9/30/2001

N.R. - Not Required

Concentrated 30 Institutional Composite contains fully discretionary institutional accounts that are typically comprised of 27-35 securities that may or may not pay dividends and are suitable for those clients with an emphasis on long-term capital appreciation and have an above-average risk tolerance. For comparison purposes, the composite is measured against the Russell 1000 Value Index. Cornerstone Investment Partners' has constructed a universe of 800 large, liquid securities, including non-US companies, traded on US exchanges. Cornerstone Investment Partners, LLC is an independent, employee-owned investment advisory firm. The firm maintains a complete list and description of composites, which is available upon request. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results. The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Gross returns were reduced by transaction costs. Net of fee performance was calculated using actual management fees. For non-fee-paying accounts, a model fee based on the standard investment advisory schedule was applied. Beginning October 1, 2008, composite policy requires the temporary removal of any portfolio incurring a client-initiated significant cash inflow or outflow of 30% of portfolio assets. The Concentrated 30 Composite was created on April 1, 2010. N.A.* The annual composite dispersion is an asset-weighted standard deviation calculated for the accounts in the composite for the entire year. This is not shown when there are 5 or fewer accounts in the composite for the entire year as it is not statistically meaningful. Cornerstone Investment Partners claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the

GIPS standards. Cornerstone Investment Partners has been independently verified for the periods September 30, 2001 thru December 31, 2023. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The Concentrated 30 composite has had a performance examination for the periods September 30, 2001 thru December 31, 2023. The verification and performance examination reports are available upon request. Benchmark returns are not covered by the report of independent verifiers. As of January 1, 2007, the composite was split into a tax-sensitive composite and a non-tax-sensitive composite to better reflect our performance for each account type. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. Submit requests to Cornerstone Investment Partners: 3438 Peachtree Rd, Suite 900. Atlanta, GA 30326; Phone: 404-751-3850; Email: marketing@cornerstone-ip.com. The general fee schedule for equity accounts is as follows: 0.55% on the first \$20,000,000; 0.45% on the next \$20,000,000 and 0.35% on the balance. Actual investment advisory fees incurred by clients may vary. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Due to the marketing rule that went into effect on 11/4/22, the net returns were updated to comply with this regulation. Additional information is available upon request.

Source: Cornerstone Investment Partners